

Monthly Market Report

November 2016



Once again we can report relative price stability across all log sales sectors this month with slight firming being the order of the day. Domestic prices are unchanged except for pruned grade which have moved upward NZ\$5 per tonne. Export prices moved upward for November sailings by US\$2 - 3 per cubic metre CIF basis. This, together with a slight downward shift in FOREX, has seen wharf gate prices improve within a range NZ\$4 - 6 per cubic metre.

The latest information out of China confirms consumption running at 68,000 cubic metres per day across the Eastern Seaboard. This compares very closely with the same time last year, reflecting a slight decrease in construction lumber usage versus a slight increase in the furniture and mouldings segment.

At this time of year construction is in one of its strongest periods before the onset of winter. Consumption can be expected to reduce shortly as winter bites, particularly in the Northern Provinces. Meanwhile inventory remains at 3.2 million cubic metres which is a very good comfort level, reflecting supply and demand in approximate balance.

Meanwhile in the Shaky Isle of the long white mountain dust clouds, markets are strong, domestic consumption has rarely been better and it looks like more of the same going forward. The shortage in supply to local mills has been much less over the last 4 weeks with few complaining about lack of supply. Prices are stable but there is a small push coming in the bottom end.

Domestic pruned log prices have improved with more local mills able to take advantage of a lower exchange rate and shipping cost to target markets in Australia, USA and China. As always in this segment, log quality is critical to the equation with high quality meaning plenty of clearwood and no defects.

With China New Year being much earlier (20 January) we would expect there to be some stress and strain in the supply chain. China will be on holiday when the mid December loadings arrive from NZ. The interplay will be how 1st quarter 2017 volume versus consumption number play out with all indicators telling us it will not take much to upset the price rickshaw.

In my last report I covered a Supply Chain Logistics conference I had spoken at in Qingdao in China. I thought it would be useful for readers to learn more

about the NZ forest industry which I included in my presentation. So often we assume everyone knows about our industry but I thought I would take some space to recap.

- ▶ NZ Plantation (planted) forests occupy about 1.8 million hectares
- ▶ This forest cover represents 7% of NZ total land area
- ▶ The plantation industry employs about 20,000 people
- ▶ Annual earnings are just under NZ\$5 billion
- ▶ Revenue is about 3% of GDP
- ▶ NZ 3rd largest export earner and has been for 30+ years
- ▶ 89% of planted forests area is Radiata pine
- ▶ 6% is Douglas fir
- ▶ 5% is Cypress and Eucalyptus
- ▶ Current harvest volumes are around 29 million cubic metres per annum
- ▶ Of all sales approx 52% is exported as logs and 48% to domestic mills
- ▶ It is highly likely annual harvest volumes will not exceed 31 mil cubic metres next 10 years
- ▶ Given loss in stocked area and early harvest based on good prices, there is much less likelihood of a dramatic increase in annual harvest volumes going forward
- ▶ The plantation area has declined 93,000 hectares since 1990
- ▶ Annual export sales for all forest products greater the NZ\$1 mil includes 38 countries

It is great to see planting forests and woodlots taking on a revival. Associate Primary Industries Minister Jo Goodhew has just confirmed 5.5 million seedlings covering approx 4,800 hectares of new forest area will be established in 2017 as part of the Afforestation Grant Scheme - it is time to get on the planting wagon if you are not already, the opportunity to participate in one of NZ highest yielding land based investment options could slip you by!

Thus, it has never been more timely to remember the only way forward for climate, country and the planet is to get out there and plant more trees.....!

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